TRUTH IN SAVINGS ACT (TISA)

OVERVIEW

The Truth in Savings Act (TISA) and the Federal Reserve Board's implementing Regulation DD require the clear and uniform disclosure of the rates of interest, annual percentage yields, fees, and other account terms for deposit accounts offered by depository institutions. These disclosures assist consumers in meaningful comparisons between the competing claims of depository institutions with regard to deposit accounts.

Examination Objective(s)

The objective of the examination is to determine that the financial institution has policies and procedures in place to ensure compliance with all provisions of the regulation.

In This Section

DEFINITION(S)

Account

A deposit account at a depository institution that is held by or offered to a consumer. It includes time, demand, savings, and negotiable order of withdrawal accounts.

NOTE: For the purposes of the advertising requirements in Section 230.8, the term also includes an account at a depository institution that is held by or on behalf of a deposit broker, if any interest in the account is held by or offered to a consumer.

DEFINITION(S)

(cont'd)

Annual Percentage Yield (APY)	A percentage rate reflecting the total amount of interest paid on an account, based on the interest rate and the frequency of compounding for a 365-day period, calculated in accordance with Appendix A of the regulation.
Average Daily Balance Method	The application of a periodic rate to the average daily balance in the account for that period. The average daily balance is determined by adding the full amount of principal in the account for each day of the period and dividing that figure by the number of days in the period.
Bonus	A premium, gift, award, or other consideration worth more than $10 (whether in the form of cash, credit, merchandise, or any equivalent) given or offered to a consumer during a year in exchange for opening, maintaining, renewing, or increasing an account balance. The term **does not** include interest, other consideration worth $10 or less given during a year, the waiver or reduction of a fee, or the absorption of expenses.
Consumer	A natural person who holds an account primarily for personal, family, or household purposes, or to whom such an account is offered. The term **does not** include a natural person who holds an account for another in a professional capacity.
Daily Balance Method	The application of a daily periodic rate to the full amount of principal in the account each day.
Periodic Statement	A statement setting forth information about an account (other than a time account or passbook savings account) that is provided to a consumer on a regular basis four or more times a year.
Stepped-Rate Account	An account that has two or more interest rates that take effect in succeeding periods and are known when the account is opened.

DEFINITION(S) (cont'd)

An account that has two or more interest rates that are applicable to specified balance levels. There are two acceptable tiering methods. For purposes of examples of these methods discussed below, assume the following:

Tiered-Rate Account

Interest rate (percent)	Deposit balance required to earn rate
5.25%	Up to but not exceeding $2,500.
5.50%	Above $2,500 but not exceeding $15,000.

Under Tiering Method A, an institution pays on the full balance in the account the stated interest rate that corresponds to the applicable deposit tier. For example, if a consumer has a balance of $8,000, the institution pays the 5.50% interest rate on the entire $8,000.

Under Tiering Method B, an institution pays the stated interest rate only on that portion of the balance within the specified tier. For example, if a consumer has a balance of $8,000, the institution pays 5.25% on $2,500 and 5.50% on $5,500 (the difference between $8,000 and the first tier cut-off of $2,500).

Variable-Rate Account

An account in which the interest rate may change after the account is opened, unless the institution contracts to give at least 30 calendar days advance written notice of rate decreases.

MANAGEMENT OR POLICY-RELATED PROCEDURES

Examination Procedures
1. Determine the extent and adequacy of the financial institution's policies, procedures, and practices for ensuring compliance with Regulation DD. *NOTE: This should include a determination as to whether the financial institution has an adequate internal mechanism in place to monitor the effectiveness of its compliance with the regulation.*
2. Determine the extent and adequacy of the training provided to those individuals responsible for compliance with Regulation DD.
3. Review the policies and procedures of the financial institution to ensure that account disclosure information is provided to new or potential deposit account customers within the appropriate time frames.
4. Determine if the financial institution's procedures ensure subsequent disclosure of any change in terms required to be disclosed under Section 230.4(b) and that exceptions to notice requirements are limited to those set forth in Section 230.5(a)(2).

MANAGEMENT OR POLICY-RELATED PROCEDURES (cont'd)

5. Determine if the financial institution's method of paying interest is permitted by the regulation. This should include a review of when interest begins to accrue for deposits to the account. (230.7)

✓ TIP: Review TISA-related System Defaults requested during initial examination activities. *Refer to the Initial Examination Procedures section of this manual.*

6. Determine if the institution's advertising policies are consistent and meet the requirements of Regulation DD. (230.8)

   Refer to the Advertising and Public Notices section of this manual.

TRANSACTION-RELATED PROCEDURES

Account Disclosures

1. Determine the types of deposit accounts offered to consumers.

   Include accounts usually offered to commercial customers that may occasionally be offered to consumers, as well as the characteristics for each type of deposit account (for example, bonuses offered, minimum balances, balance computation method, frequency of interest crediting, fixed or variable rates, fees imposed, frequency of periodic statements, etc.).

2. Review each deposit account disclosure to determine whether the contents are accurate and include all information required by the regulation. (230.4(b))

✓ TIP: Review disclosures for inconsistencies. For example, determine whether one section of the disclosure states average daily balance method while another section states daily balance method of interest calculation on tiered deposit accounts.

3. Determine whether the account disclosures reflect the legal obligation between the consumer and the financial institution. (230.3(b))

✓ TIP: Select samples of both disclosures and legal obligations to review for consistency. Review should include testing calculations for early withdrawal penalties for consistency with the legal obligation (such as certificate of deposit form) and disclosures. If bank uses forms with boxes to indicate penalty method to be used, determine if any box or the wrong box is being checked. <u>NOTE</u>: Renewal notices provide for changes in disclosures only and do not apply to the underlying legal obligation.

TRANSACTION-RELATED

4. Determine whether the financial institution provides the required deposit account disclosures on a timely basis in connection with the opening of an

PROCEDURES (cont'd)

account or upon request. (230.4(a))

Notice of Change in Terms and Notice Before Maturity
1. Determine whether the financial institution sends out change in terms notices to consumers at least 30 calendar days in advance of the effective date of any change in a term that may reduce the APY or that adversely affects the consumer. • Review a sample of these notices to ensure that they include all required information • Verify that these notices are sent on a timely basis (230.5(a))
2. Determine whether the financial institution sends out notices before maturity for time accounts. • Review a sample of these notices to ensure that they include all required information • Verify that these notices are sent on a timely basis (230.5(a)) *Refer* to the Prematurity Disclosures for Time Accounts chart at the end of this section.

Periodic Statement Disclosures
1. Determine the accounts for which the financial institution sends a periodic statement and the frequency with which they are sent. *NOTE: A financial institution is not required to send a periodic statement; however, if it does, it must comply with the provisions of Section 230.6.*
2. Review a sample of periodic statements from each of the different types of deposit accounts. *NOTE: The examiner should obtain samples of completed periodic statements for each deposit account that illustrate the various types of transactions and activities permitted on the account.*
✓ TIP: Review periodic statements to determine whether bank is charging for automated or preauthorized debits. If so, review the Truth in Savings disclosure to see if it provides for such fees and whether fees charged are consistent with disclosed terms. Also, review Electronic Funds Transfer disclosure to see if the bank is to charge such fees, and whether the fee charged is consistent with disclosed terms.

TRANSACTION-RELATED

✓ TIP: When testing accuracy of fees which are based on maintaining certain daily or average daily balances, determine whether the balances are

PROCEDURES (cont'd)

being properly calculated. Review statements to determine inconsistencies such as non-business day ATM debits being posted to a depositor's account immediately for calculation of balances on which interest and fees are based, but incorrectly shown on the periodic statement as being posted on the next business day.

3. Determine if the periodic statements include all required disclosures and that they are accurate. (230.6)

Payment of Interest

1. Review a sample of each of the different types of deposit accounts to determine whether the financial institution's method of paying interest is one of the methods permitted under Section 230.7.

✓ TIP: If an account requires a minimum balance to obtain an annual percentage yield, select periodic statements where the balance drops below the minimum for one day or a few days of the period. This will reveal whether the bank is using a prohibited low-balance method of interest calculation.

✓ TIP: Select periodic statements where the daily balance is at two or more tiers (and therefore two or more interest rates) during the same period. This may reveal practices or methodologies which are inconsistent with disclosures/advertising or practices which are unacceptable or prohibited by the regulation. Selecting accounts with balances in just one tier or just the lowest tier during the period will not reveal these practices.

✓ TIP: When testing accounts for daily compounding of interest as disclosed and/or advertised, choose accounts which have higher balances, longer terms, and higher interest rates whenever possible. The use of such accounts facilitates the detection of calculation errors that may otherwise be concealed in small balance, short-term, low-rate accounts.

✓ TIP: Samples should include not only deposit accounts with periodic statements, but also accounts for which no periodic statements are required. This includes such deposit types as passbook savings accounts, certificates of deposit, and IRA accounts. These may be examined by reviewing deposit histories of these accounts.

TRANSACTION-RELATED PROCEDURES

2. Determine if interest begins to accrue not later than the business day specified for interest bearing accounts under Section 229.14 of Regulation CC and that interest accrues until the day funds are withdrawn.

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NOTE: If the financial institution calculates interest on the collected balance (as indicated by management on the Compliance Information Request), all necessary documentation for verifying when interest for the selected sample began accruing should have been requested during the initial stages of the examination.

3. Determine that accrued interest is not forfeited when a consumer closes their account prior to crediting of the interest unless this practice is specified in the initial account disclosures.

Enforcement Actions

1. While Regulation DD does not address the issue of requiring monetary adjustments or reimbursement, the Act does provide incentive to financial institutions which voluntarily make appropriate compensations to customer accounts.

   To avoid the possibility of civil liability, the institution should:

   - Notify account holders of noncompliance with Regulation DD;
   - Make the necessary adjustments to ensure affected account holders are not liable for either excessive fees or charges or any fee or charge that was not disclosed; and receive the appropriate amount of interest for the disclosed APY and conditions; and
   - Act within 60 days of discovering the error and before an account holder files suit or notifies the bank of its noncompliance with Regulation DD.

   Thus, it is in the financial institution's best interest to promptly notify account holders of any errors that are identified and promptly adjust those errors. Should a financial institution refuse to notify the account holder of the error and make necessary adjustment, Regional Directors may, in appropriate circumstances, pursue formal enforcement action under Section 8 of the FDI Act seeking restitution and/or civil monetary penalties.

Record Retention

1. Review a sample of the financial institution's records to determine whether the institution has maintained evidence of compliance for a minimum of 2 years after disclosures are required to be made or action is required to be taken. (230.9)

WORKPAPER STANDARDS

Appropriate workpapers must be completed when reviewing compliance with the TISA. Refer to the Workpaper Standards Appendix in this manual.

PREMATURITY DISCLOSURES FOR TIME ACCOUNTS		
	Automatically Renewable ("Rollover") Time Accounts	**Nonautomatically Renewable ("Nonrollover") Time Accounts**
≤ 1 Month	No advance notice required. Notice must be sent within a "reasonable time" after renewal if any change made to disclosed term (other than interest rate and annual percentage yield).	No notice required.
> 1 Month but ≤ 1 Year	Timing: (A) 30 (calendar) days before maturity; or (B) 20 (calendar) days before end of grace period, if a grace period of at least 5 (calendar) days is provided. Content: Interest rate and APY for new account (or fact that rates have not been determined, when they will be, and telephone number for consumer to call for rates), and either: (A) date of maturity of existing and new account, and any change in terms; or (B) full disclosure for account (Section 4(b)) and date of maturity for existing account.	
> 1 Year	Timing: Same as for accounts greater than one month and not more than one year. Content: Full disclosures for account (Section 4(b)) and date of maturity for existing account.	Timing: 10 (calendar) days before maturity. Content: Maturity date, and whether or not interest will be paid after maturity.

FDIC LAW, REGULATIONS, & RELATED ACTS

Applicable Rules

Federal Reserve Board's Regulation DD, Volume 2, Page 7429

Federal Reserve Board's Regulation DD Official Staff Interpretations, Volume 2, Page 7459

Truth in Savings Act, Volume 3, Page 8550.10

Advisory Opinions

Regulation DD: Sufficiency of Proposed Disclosures of Annual Percentage Yields for Tiered-Rate Accounts, Letter #93-56, dated 8/13/93, Volume 1, Page 4792

Regulation DD: Tiered-Rate Accounts and Disclosure Statement Requirements, Letter #93-67, dated 9/27/93, Volume 1, Page 4809

Regulation DD: Truth in Savings: Disclosures in Advertisements Soliciting Deposits, Letter #94-54, dated 11/30/94, Volume 1, Page 4908

Statements of Policy

None

DCA MEMORANDA

Enforcement Actions under Truth in Savings, Transmittal #DCA-95-017, dated 6/16/95

FINANCIAL INSTITUTION LETTERS (FIL)

Federal Reserve Regulation DD (Truth in Savings), Letter #12-95, dated 2/6/95

Final Rules Implementing the Truth in Savings Act, Letter #72-92, dated 10/19/92

New Examination Procedures, Computer Software for Compliance with Truth in Savings Act, Letter #50-93, dated 7/21/93